MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2015

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the six months ended June 30, 2015 prepared as of August 26, 2015, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the six months ended June 30, 2015 and the related notes thereto of Santacruz Silver Mining Ltd. ("the Company" or "Santacruz") ("the 2015 Q2 Financial Statements"), together with the audited consolidated financial statements of the Company for the year ended December 31, 2014 as well as the accompanying MD&A for the year then ended ("the Annual MD&A").

The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in US dollars unless otherwise indicated.

The Company's critical accounting estimates, significant accounting policies and risk factors as disclosed in the Annual MD&A have remained substantially unchanged and are still applicable to the Company unless otherwise indicated.

Forward-Looking Statements

This MD&A and the documents incorporated herein by reference contain "forward-looking information" within the meaning of applicable Canadian securities regulations and "forwarding-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, "**forward-looking information**"). The forward-looking information contained in this MD&A is made as of the date hereof. Except as required under applicable securities legislation, the Company does not intend, and does not assume any obligation, to update forward-looking information.

Forward-looking information includes, but is not limited to, statements with respect to the future price of silver, gold and other metals and the effects thereof on the Company's mineral resources; statements relating to the potential mineralization and geological merits of the Company's Rosario mine (the "**Rosario Mine**"), San Felipe project (the "**San Felipe Project**"), Gavilanes property (the "**Gavilanes Property**" or "**Gavilanes Project**") and the El Gachi property (the "**El Gachi Property**"), as described below; the Company's expected production and recoveries for its Rosario Mine; the expectations for the development of the main access at the Rosario Mine; expectations regarding the utilization of a geotextile containment system to dewater and store tailings on an interim basis until a permanent solution is developed; expectations regarding the continuity of mineral deposits; the Company's goals regarding raising capital and developing its projects; the Company's proposed development and exploration plans for the San Felipe Project and the Gavilanes Property; timing of a pre-feasibility study for the San Felipe Project; plans for drilling; expectations regarding environmental issues that may affect the exploration progress; project capital cost estimates; and the Company's other plans for development of its projects. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or the negatives thereof or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

This forward-looking information is based on certain assumptions that the Company believes are reasonable, including that: the Company is able to obtain any required government or other regulatory approvals and adequate financing to complete its current and future exploration and development programs; current gold, silver and base metal prices will not materially decrease; the proposed development of the Company's mineral projects will be viable operationally and economically and proceed as expected; the Company will not experience any material accident, labour dispute or failure of plant or equipment; any additional financing needed by the Company will be available on reasonable terms; that planned drilling at its mineral properties will be completed and that the results of such drilling will be sufficient to expand the existing resources at the Gavilanes Property consistent with management's expectations; that general business and economic conditions will not change in a material adverse manner; that the Company's exploration of its properties is not adversely affected by unexpected adverse weather conditions; that the estimates of the resources at the Rosario Mine, the San Felipe Project and the Gavilanes Project obtained by the Company are within reasonable bounds of accuracy (including with respect to size, grade and recovery); and that the Company's current exploration and development programs and objectives can be achieved.

Any financial outlook contained herein, as defined by applicable securities legislation, is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include, among others, the risk that actual results of exploration activities will be different than anticipated, that cost of labour, equipment or materials increase more than expected, that the future price of silver, gold and base metals will decline, that mineral resources are not as estimated, that actual costs of reclamation activities are greater than expected; that changes in project parameters as plans continue to be refined result in increased costs, that lower rates of production are achieved than are expected, that unexpected variations in ore grade or recovery rates occur, that plant, equipment or processes fail to operate as anticipated, that accidents of labour disputes occur, that unanticipated delays occur in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A, at pages 7 to 18 of the annual information form of the Company for the year ended December 31, 2012 dated November 19, 2013 (the "AIF"), filed on SEDAR on November 21, 2013. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on forward-looking information due to the inherent uncertainty thereof.

General

Santacruz was incorporated pursuant to the Business Corporations Act of British Columbia on January 24, 2011. The Company's registered office is located at 10th Floor, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5. The Company's shares are listed for trading on the TSX Venture Exchange under the symbol "SCZ". The Company also trades on the OTCQX under the trading symbol "SZSMF" and the Santiago Stock Exchange Venture under the trading symbol "SZCL".

The Company is engaged in the operation, acquisition, exploration and development of mineral properties in Mexico, with a primary focus on silver, but also including gold, zinc and lead. The Company is currently focused on meeting and maintaining its primary production objective of producing approximately 1.5 million silver equivalent ounces on a yearly basis at its producing property, the Rosario Mine. In addition, the Company is exploring three other mineral properties, being the San Felipe Project (an advanced stage project), the Gavilanes Project (an exploration project), and the El Gachi Property (an early stage exploration project).

The Company's strategic objective is to become a mid-tier silver producer in Mexico. As first steps to achieving this objective, the Company is focused in the near term, on the following:

• Continuing to increase production and upgrade performance at the Rosario Mine; and

• Completing additional fieldwork, technical studies and permitting activities at the San Felipe Project in preparation for taking a development decision.

Second Quarter 2015 Highlights

- Selected operating and financial information for the first and second quarters of 2015 and the second, third, and fourth quarters of 2014 is presented below:

	2015		2014		
	Q2	**Q1**	**Q4**	**Q3**	**Q2**
Operating					
Ore Processed (tonnes milled) (1)	26,492	1,823	25,099	23,677	22,612
Silver Equivalent Produced (ounces) (2)	258,089	20,011	244,200	192,400	168,300
Silver Equivalent Sold (payable ounces) (3)	247,135	30,931	263,300	188,100	148,800
Production Cost per Tonne (4) (7)	87.23	*	116.50	97.81	128.75
Cash Cost per Silver Equivalent ($/oz.) (4) (7)	13.01	*	15.08	18.13	22.17
All-in Sustaining Cost per Silver Equivalent ($/oz.) (4) (7)	16.86	*	20.68	23.68	29.70
Average Realized Silver Price per Ounce ($/oz.) (4) (6)	17.00	17.41	16.15	19.55	19.76
Financial					
Revenue ($000's)	3,147	402	3,226	3,167	2,302
Mine Operations Income (Loss) ($000's) (5) (7)	127	(1,210)	(292)	27	(895)
Net Loss ($000's) (7)	(2,018)	(2,551)	(4,498)	(1,054)	(1,579)
Net Loss Per Share – Basic ($/share) (7)	(0.02)	(0.02)	(0.05)	(0.01)	(0.01)
Adjusted EBITDA ($000's) (5) (7)	139	(1,580)	(595)	(198)	(1,066)

* During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the Q1 2015 per unit cost calculations are not considered relevant and have not been included in this table.

(1) Ore processed includes 21,600 and 4,025 tonnes respectively in the third and second quarters of 2014 arising from third party ore purchased by the Company and processed through the milling facility.

(2) Silver equivalent ounces produced in 2015 are calculated using prices of US$17.75/oz., US$1,250/oz., US$0.83/lb and US$1.09/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine. Silver equivalent ounces produced in 2014 are calculated using prices of US$20.00/oz., US$1,250/oz., US$0.96/lb and US$0.90/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine.

(3) Silver equivalent sold ounces in the second and first quarters of 2015 were calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see Financing Activities - Prepaid Silver Purchase), and US$17.41/oz., respectively, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine. Silver equivalent sold ounces in the fourth, third, and second quarters of 2014 were calculated using realized silver prices of US$16.15/oz., US$19.55/oz., and US$19.76/oz., respectively, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.

(4) The Company reports non-IFRS measures which include Production Cost per Tonne, Cash Cost per Silver Equivalent, All-in Sustaining Cost per Silver Equivalent and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-IFRS Measures" section for definitions.

(5) The Company reports additional non-IFRS measures which include Mine Operations Income (Loss) and Adjusted EBITDA. These additional financial disclosure measures are intended to provide additional information. Refer to the "Non-IFRS Measures – Additional Information" section for a reconciliation of Mine Operations Income (Loss) and Adjusted EBITDA to the 2014 Q2, Q3, Annual and 2015 Q1 and Q2 Financial Statements.

(6) Average realized silver price per ounce is prior to all treatment, smelting and refining charges. The average realized silver price per ounce for the second quarter of 2015 has been calculated after taking into account the additional funds received in the quarter from the MPPP that the Company put in place in connection with the JMET Agreement (see Financing Activities - Prepaid Silver Purchase),

(7) During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was $486,514 relating to the first quarter of 2014. For the purposes of this comparison the referenced 2014 second quarter figures have been adjusted to reflect this change.

- On April 8, 2015 the Company commenced a 21-hole surface drilling campaign at the Rosario Mine that completed on July 9, 2015. In total 5,960 metres were drilled with 11 of the holes drilled to depths greater than 200 metres, the previous deepest hole. The drill program successfully intersected the Rosario Mine vein systems at depth and assays are pending.
- On April 13, 2015 the Company announced that the Pre-Paid Silver Purchase Agreement (the “JMET Agreement”) entered into with JMET, LLC (“JMET”) had been further amended to extend until December 31, 2015 the repayment of $5 million of the $7 million due on April 1, 2015. The Company paid $2 million to JMET on April 1, 2015.
- On May 14, 2015 the Company reported that its shares had begun trading on the Santiago Stock Exchange Venture under the trading symbol “SZCL”. The Company expects that this new listing will open access to a larger network of investors, which includes MILA (the Integrated Latin American Market). MILA is a consortium of countries that includes Chile, Colombia, Peru and Mexico, that have combined together to create a more liquid market for member countries to trade stocks throughout the network.
- On July 15, 2015 the Company and JMET amended the JMET Agreement again such that the 52,000 ounces of silver to be delivered by the Company to JMET for each of July, August and September 2015 will now be due for delivery in October 2016, in addition to the 52,000 otherwise deliverable pursuant to the JMET Agreement. In addition, as consideration for JMET agreeing to such deferred deliveries of silver, the Company has agreed to make a one-time delivery of 44,625 ounces of silver to JMET in October 2016.
- On August 2, 2015 the Company commenced using a new permanent tailings disposal system that utilizes dry-stacking technology in conjunction with the prior existing tailings structure. Operating costs are expected to decrease as a result of the implementation of this system.

Tailings Discharge

On January 2, 2015 a tailings decant line running from the Rosario Mine tailings impoundment to a secondary settling pond ruptured causing an estimated 2,000 m^3 of tailings pulp to be discharged outside of the tailings storage facility.

Representatives of PROFEPA (the Mexican Federal Agency for Environmental Protection) were immediately contacted and were onsite from time to time to observe and make recommendations with respect to the Company’s remediation procedures. As part of this process PROFEPA set out the necessary steps the Company had to take to resume operations. These steps included completing a full remediation of the spill area and delivering an engineering report outlining steps for the continued use of the existing tailings storage system or such other alternative solution as is appropriate.

On March 26, 2015 the Company announced that it had received approval from PROFEPA and SEMARNAT (Mexico's environmental regulatory authorities) to resume operations at its Rosario Mine. The approval was received following completion of the remediation and cleanup of the above referenced tailings pulp discharge.

The Company also advised at that time that the tailings structure had been stabilized with remaining work focused on definitively sealing the decant system. Subsequently the sealing of the decant system was completed. From March 26th until August 2nd, an alternate tailings management system that utilized a geotextile containment system to dewater and store tailings was used. On August 2nd the Company commenced using a new permanent tailings disposal system that utilizes dry-stacking technology in conjunction with the prior existing tailings structure. Production resumed in late March at 300 tpd and subsequent to the implementation of the new permanent tailings disposal system the plan is to increase production to 450 tpd in a systematic manner over the coming weeks.

In connection with the tailings discharge incident the Company was initially advised by PROFEPA that it would be fined an amount equivalent to approximately $180,000. Subsequently the Company has been advised by PROFEPA that the amount of the fine has been decreased to approximately $130,000. Pursuant to applicable regulations, certain remediation and community related expenses incurred by the Company will be offset against the fine. To date the Company has incurred approximately $595,000 of expenditures in connection with its remediation activities.

Rosario Mine, Charcas, San Luis Potosi, Mexico

The Rosario Mine comprises the Rey David and San Rafael mining concessions located in the Municipality of Charcas in the State of San Luis Potosi, Mexico, 184 kilometres north of the capital city of San Luis Potosi. Details of the acquisition terms are contained in Note 7 of the 2015 Q2 Financial Statements. The property covers 500 hectares.

Production and Operating Results for the Second and First Quarter 2015 and the Fourth, Third and Second Quarter 2014

	2015		2014		
	Q2	Q1	Q4	Q3	Q2
Ore Processed (tonnes milled) 4)	26,492	1,823	25,099	23,677	22,612
Silver Equivalent Produced (ounces) (1)	258,089	20,011	244,200	192,400	168,300
Silver Equivalent Sold (payable ounces) (2)	247,135	30,931	263,300	188,100	148,800
Production - Silver (ounces) 4)	150,738	12,751	158,564	115,455	100,240
- Gold (ounces) (4)	89	8	310	94	104
- Lead (tonnes) (4)	222	15	201	191	171
- Zinc (tonnes) (4)	577	38	453	514	437
Average Ore Grade – Silver (g/t)	188	240	212	161	153
– Gold (g/t)	0.17	0.27	0.14	0.16	0.21
– Lead (%)	1.03	1.03	1.03	0.91	0.86
– Zinc (%)	2.66	2.60	3.01	2.39	2.29
Metal Recovery – Silver (%)	94.1	90.7	93.3	90.0	89.9
– Gold (%)	78.3	68.9	74.5	79.0	70.4
– Lead (%)	85.3	82.2	90.6	86.1	88.2
– Zinc (%)	87.2	86.2	86.1	81.7	84.4
Cash Cost per Silver Equivalent ($/oz.) (3) (5)	13.01	*	15.08	18.13	22.17
All-in Sustaining Cash Cost per Silver Equivalent ($/oz.) (3) (5)	16.86	*	20.68	23.68	29.70
Cash Cost of Production per Tonne(3) (5)	87.23	*	116.50	97.81	128.75

* During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the Q1 2015 per unit cost calculations are not considered relevant and have not been included in this table.

(1) Silver equivalent ounces produced in 2015 are calculated using prices of US$17.75/oz., US$1,250/oz., US$0.83/lb and US$1.09/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine. Silver equivalent ounces produced in 2014 are calculated using prices of US$20.00/oz., US$1,250/oz., US$0.96/lb and US$0.90/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Mine.

(2) Silver equivalent sold ounces in the second and first quarters of 2015 were calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see Financing Activities - Prepaid Silver Purchase), and US$17.41/oz., respectively, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine. Silver equivalent sold ounces in the fourth, third, and second quarters of 2014 were calculated using realized silver prices of

US$16.15/oz., US$19.55/oz., and US$19.76/oz., respectively, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Mine.

(3) The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See “Non-IFRS Measures” section for definitions.

(4) The 2014 Q2 production figures include 4,025 tonnes of third party ore that produced 11,552 ounces Ag; 23 ounces Au; 22 tonnes Pb; and 85 tonnes Zn. Not included in the 2014 Q3 production figures is 1,146 ounces Ag and 327 ounces Au included in third party precipitate purchased and processed.

(5) During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was $486,514 relating to the first quarter of 2014. For the purposes of this comparison the referenced 2014 second quarter figures have been adjusted to reflect this change.

Resource Expansion

In connection with the Main Access Ramp development, management initially planned a 4,000 metre underground drilling program for early 2015 to test the Rosario Mine to depth. During February of 2015 the decision was taken to complete this work using a surface drill and by early April 2015 a drill contractor had been mobilized to site and commenced the surface drilling program that completed July 9, 2015. In total 21 drill holes were completed totalling 5,960 metres. Of this amount, 11 drill holes totalling 3,852 metres were drilled to depths greater than 200 metres, the previous deepest drill holes at the Rosario Mine.

Results of the drill program were very encouraging with successful intersection of the Rosario Mine vein systems at depth. Assays are pending and will be released when received.

Review of Operations – Three Months Ended June 30, 2015

Note, for the purposes of the following discussion the results of operations for the second quarter of 2015 are compared to the second quarter of 2014 and to the fourth quarter of 2014. The fourth quarter 2014 comparison is included as this was the most recent full quarter of operations prior to the current quarter.

Financial

The Company recorded a net loss of $2,017,827 ($0.02 per share) for the second quarter of 2015 compared to the net loss of $1,091,827 ($0.01 per share) for the second quarter of 2014 and a net loss of $4,497,587 ($0.04) in the fourth quarter of 2014. A significant component of the increased loss in the second quarter of 2015 versus the second quarter of 2014 is the impact of the JMET Agreement (see Financing Activities - Prepaid Silver Purchase). After taking into account interest income recorded, interest expense recorded and the change in fair value of derivative asset (see note 13 to 2015 Q2 Financial Statements) related to the JMET Agreement, an increase in net interest expense/income and other finance expenses/income of approximately $812,000 was recorded in the current quarter as compared to the second quarter of 2014, which when taken together with an increase in foreign exchange expense of approximately $498,000 in the same periods, resulted in a total increase in expenses in the second quarter of 2015 versus the second quarter of 2014 of approximately $1,310,000.

With respect to the decreased net loss in the current quarter as compared to the fourth quarter of 2014, in the fourth quarter of 2014 a one-time charge of $2,321,969 for loss on settlement of silver loan was recorded as well as an income tax provision of $858,119 compared to virtually $nil amounts in the current quarter, offset by approximately $770,000 of increased JMET Agreement and foreign exchange expenses in the current quarter. Accordingly, prior to accounting for these matters, the decrease in net loss for the current period versus the fourth quarter of 2014 was approximately $460,000, which primarily relates to the reduced comparative operating loss in the current quarter. The reasons for this decrease are discussed below.

In all accounting periods referenced herein the foreign exchange loss (gain) is affected by the volatility in the Canadian versus US dollar exchange rate as well as the Mexican peso versus the US dollar exchange rate. Given the terms of the JMET Agreement and certain inter-company loans between Santacruz Silver Mining Ltd. and its Mexican operating subsidiary, period over period changes in foreign exchange expense can be significant. Notwithstanding this, only a relatively small amount of foreign exchange loss has been realized to date, with the greater amount of the recorded foreign exchange expense being an unrealized balance.

The Company recorded revenues of $3,147,077, an increase of $845,021 or 37% in the second quarter of 2015 as compared to the second quarter of 2014 primarily because of increased payable metal amounts sold (approximately $1.7 million), offset in part by lower silver prices (approximately $0.7 million before taking into account the $0.3 million realized from the MPPP) and to a lesser extent by increased concentrate treatment, smelting and refining fees (approximately $0.1 million). Revenues decreased nominally as compared to the fourth quarter of 2014 ($78,850 or 2%) as a result of decreased payable metal amounts sold (approximately $0.3 million) being largely offset by an increased price of silver realized and similarly decreased concentrate treatment, smelting and refining fees (approximately $0.3 million) being offset by the proceeds of the MPPP. The increased payable metal amounts sold in the current quarter versus the second quarter of 2014 resulted primarily from higher grade ore being processed in the current quarter and better mill recovery of silver. As compared to the fourth quarter of 2014, in the current quarter the payable metal amount sold decreased primarily because of a lower head grade of silver ore that was milled. Management expects that the ore head grade will improve, in particular the silver head grade, during the third quarter and for ensuing quarters.

Cash cost of sales of $2,466,795 decreased by $207,134 or 8% as compared to the second quarter of 2014 primarily as the result of increased mill throughput in the current quarter (approximately $0.46 million), offset by a decreased cash cost of sales per tonne milled (approximately $0.67 million). As compared to the fourth quarter of 2014 cash cost of sales decreased by $586,702 or 19% as the result of a decreased cash cost of sales per tonne milled (approximately $0.95 million) offset somewhat by the cost of increased mill throughput (approximately $0.18 million). With respect to both of the comparative periods referenced above, mining costs were substantially lower in the current quarter and management expects that in general mining costs will be lower than in 2014. The significant decrease in the current quarter costs versus the fourth quarter of 2014 also reflects the fact that the third ball mill was commissioned in that quarter and operating costs were higher as a result. As mill throughput increases over the coming weeks and the new tailings treatment system is brought on line management expects that the milling cost per tonne will decrease further.

Amortization and depletion expenses in the second quarter of 2015 amounted to $553,109 (2014 - $453,735) and amounted to $280,505 in the fourth quarter of 2014. These expenses vary largely in direct relation to the number of tonnes milled during the period.

The Rosario Mine operations for the three months ended June 30, 2015 resulted in a gross profit of $127,173 (2014 – gross loss of $408,144) as compared to a gross loss of $291,337 in the fourth quarter of 2014 due to the positive revenue and cash cost of sales variances described above.

During the second quarter of 2015 the Company recorded operating expenses of $569,716 (2014 - $768,544) as compared to $469,831 in the fourth quarter of 2014.

Variances of note in operating expenses are detailed below:

- Management and consulting fees of $97,541 (2014 - $140,727). The management and consulting fees were lower during the second quarter of 2015 because the 2014 quarter included one-off consulting fees of approximately $74,000 related to personnel recruitment charges.

- Share-based payments of $26,729 (2014 - $141,465). No stock options were granted during the three months ended June 30, 2015 as compared to 400,000 stock options granted during the three months ended June 30, 2014. The share-based payments recorded during the three months ended June 30, 2015 were due to the vesting of previously granted stock options.
- Shareholder communications of $17,321 (2014 - $51,612). These expenses decreased primarily as the result of decreased investor awareness initiatives.
- Travel expenses of $11,974 (2014 - $33,713). Travel expenses decreased in connection with a decrease in general corporate travel associated with industry conferences and investor meetings.

Production

Total production for the quarter was 258,089 silver equivalent ounces and consisted of 150,738 ounces of silver, 89 ounces of gold, 222 tonnes of lead and 577 tonnes of zinc. The significant increase in production as compared to the second quarter of 2014 is the result of increased mill throughput tonnage (17%) in the current quarter as well as higher head grade of ore processed (with the exception of gold) and higher mill recoveries (with the exception of lead).

As compared to the fourth quarter of 2014, increased production in the current quarter is largely reflective of the increase in mill throughput tonnage.

Cash Cost Per Silver Equivalent Ounce

The cash cost per silver equivalent ounce for the current quarter was $13.01 per payable ounce of silver sold, a decrease of 41% as compared to the second quarter of 2014. This decrease is largely reflective of the increased metal production referenced above. As mill throughput increases over the coming weeks and the new tailings treatment system is brought on line management expects that the cash cost per silver equivalent ounce will decrease further.

As compared to the fourth quarter of 2014, the cash cost per silver equivalent ounce decreased by 14% largely as the result of significantly decreased cash operating costs (24%) offset by an 8% decrease in payable silver equivalent ounces sold.

All-In Sustaining Cost Per Silver Equivalent Ounce

The all-in sustaining cost (“AISC”) per silver equivalent ounce for the current quarter was $16.86, a decrease of 43% as compared to the second quarter of 2014. This decrease is largely reflective of the increased metal production referenced above and is in concert with the decreased cash cost per silver equivalent ounce for the referenced periods. As noted above, as mill throughput increases over the coming weeks and the new tailings treatment system is brought on line management expects that the AISC per silver equivalent ounce will decrease further.

As compared to the fourth quarter of 2014, the AISC per silver equivalent ounce decreased by 18% largely as the result of significantly decreased cash operating costs (21%) offset by a 6% decrease in payable silver equivalent ounces sold.

Review of Operations – Six Months Ended June 30, 2015

The Company recorded a net loss of $4,569,134 ($0.04 per share) for the six months ended June 30, 2015, compared to the net loss of $3,154,104 ($0.03 per share) for the six months ended June 30, 2014.

The Company recorded revenues of $3,549,117 (2014 - $4,233,623), cash cost of sales of $4,195,289 (2014 - $5,147,154) and amortization and depletion expenses of $605,110 (2014 - $766,805) for the six months ended June 30, 2015 resulting in a loss from mine operations of $2,104,347 (2014 - $3,247,305), primarily because there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. Due to this temporary halt in operations the Company is not providing a discussion and analysis comparing the six-month period ended June 30, 2015 to the same period in 2014 with respect to revenues, cost of sales, and amortization and depletion expense as the 2015 results reflect only three months of operations as compared to six months in 2014.

Variances of note in operating expenses are detailed below:

- Administrative expenses of $134,679 (2014 - $284,639) and management and consulting fees of $186,854 (2014 - $319,242). The administrative and management and consulting fee were lower during 2015 primarily due to the decreased activities at the Company's Mexican office in connection with the halt in operations at the Rosario Mine in the first quarter of 2015.
- Share-based payments of $52,942 (2014 - $149,957). No options were granted during the six months ended June 30, 2015 and 400,000 stock options were granted during the 2014 fiscal period. This resulted in lower share-based payments recorded in 2015 as the share-based payments recorded during the six months ended June 30, 2015 were due to the vesting of previously granted stock options.
- Shareholder communications of $36,935 (2014 - $97,008). These expenses decreased primarily as the result of decreased investor awareness initiatives.
- Travel expenses of $27,656 (2014 - $71,964). Travel expenses decreased in connection with a decrease in general corporate travel associated with industry conferences and investor meetings.

Included in the operating loss is approximately $127,019 of expenses associated with tailings discharge remediation activities.

Summary of Quarterly Results

	THREE MONTHS ENDED			
	Jun 30, 2015	**Mar 31, 2015**	**Dec 31, 2014**	**Sep 30, 2014**
	$	**$**	**$**	**$**
Revenues	3,147,077	402,040	3,225,927	3,167,067
Cost of sales[2]	3,019,904	1,611,692	3,517,264	3,141,003
Administrative expenses	569,716	452,152	469,831	907,266
Net loss[2]	(2,017,827)	(2,551,307)	(4,497,587)	(1,054,062)
Net loss per share[1] [2]	(0.02)	(0.02)	(0.05)	(0.01)
	THREE MONTHS ENDED			
	Jun 30, 2014	**Mar 31, 2014**	**Dec 31, 2013**	**Sep 30, 2013**
Revenues	2,302,056	1,931,567	Nil	Nil
Cost of sales	2,710,200	3,278,678	Nil	Nil
Administrative expenses	768,544	723,506	533,954	691,827
Net loss	(1,091,827)	(2,062,277)	(4,507,829)	(503,505)
Net loss per share[1]	(0.01)	(0.02)	(0.05)	(0.00)

(1) The basic and fully diluted calculations result in the same value due to the anti-dilutive effect of outstanding stock options and warrants for all quarters.

(1) Cost of sales are as reported. During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was $486,514 relating to the first quarter of 2014. This adjustment has not been reflected in the first or second quarter operating expenses, net loss or net loss per share reported in this table.

During the three months ended March 31, 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such revenues and cost of sales for the quarter were significantly less than in prior quarters and the current quarter.

Effective January 1, 2014, the Company began reporting the operating results of its Rosario Mine and accordingly began reporting revenues and operating expenses for the quarter ended March 31, 2014 and all subsequent quarters in its consolidated statement of loss and comprehensive loss.

Resource and Exploration Update

San Felipe Project, San Felipe de Jesús, Sonora, Mexico

The San Felipe Project consists of 14 concessions and is a late stage exploration project, located in the State of Sonora, approximately 130 kilometers north-west of Hermosillo City, the state capital of Sonora. Santacruz acquired exploration rights with the right to purchase the project from Minera Hochschild Mexico, S.A. de C.V. ("Hochschild") pursuant to the terms of a mining exploration and promissory sale agreement dated August 3, 2011, as amended December 9, 2011, October 8, 2012, August 13, 2013, September 4, 2014 and July 7, 2015 (the "San Felipe Agreement"). Details of the acquisition terms are included in note 8(b) to the 2015 Q2 Financial Statements.

Seven mineralized structures are known to exist within the San Felipe Project area: the Santa Rosa, La Ventana, Transversales, San Felipe, Artemisa, Cornucopia, and Las Lamas. In most cases, the mineralized structures are silicified and form resistant, high-relief ridges.

<u>Exploration Summary</u>

Hochschild explored the project from 2006 to 2008, with more than 42,400 meters of diamond drilling on the La Ventana, San Felipe and Las Lamas veins. As well, Hoschchild developed a decline into the Ventana structure and completed preliminary metallurgy and various engineering studies. In 2013 and 2014, Santacruz completed an additional 20,127 meters of drilling on the project and undertook additional metallurgical, engineering and environmental studies. A copy of the most recent NI43-101 Technical Report dated effective September 4, 2014 for the San Felipe Project is available on the Company's website at www.santacruzsilver.com and on SEDAR. The Report was authored by Hans Smit, B.Sc. (Hons), P.Geo.,Fletcher M. Bourke, M.Sc., P.Geo., Gary Giroux, M.Sc., P.Eng., Greg Blaylock, B.Sc., P.Eng. and Deepak Malhotra, Ph.D., SME-RM, who are independent "qualified persons" under NI 43-101. The Report disclosed the indicated and inferred mineral resources estimated within the San Felipe Project, with an effective date of September 4, 2014, and remains current. A mineral reserves estimate was not prepared. Mineral Resources are not Mineral Reserves and do not demonstrate economic viability. There is no certainty that all or any part of the Mineral Resource will be converted to Mineral Reserves.

More detailed information regarding the San Felipe Project is available on the Company's website, www.santacruzsilver.com.

<u>Exploration and Acquisition Costs</u>

During the six months ended June 30, 2015, Santacruz incurred mineral property acquisition costs and exploration expenditures of $nil and $586,235 respectively at the San Felipe Project.

The Company plans to complete additional fieldwork, technical studies and permitting activities in preparation for taking a development decision at the San Felipe Project.

Gavilanes Property, San Dimas, Durango, Mexico

The Gavilanes Property comprises 10 mining concessions located in the rugged Sierra Madre Occidental mountain range in the municipality of San Dimas in the State of Durango, Mexico, approximately 110 kilometres west-north-west of Durango City. The Gavilanes Property covers a total area of 8,832.28 hectares. Details of the acquisition terms are contained in Note 8(a) of the 2015 Q2 Financial Statements.

Current Exploration Activities

On January 23, 2014, the Company filed a technical report in respect of its previously announced independent NI 43-101 Mineral Resource estimate on the Gavilanes Property. The Mineral Resource estimate was prepared by Gary Giroux, P.Eng. of Giroux Consultants Ltd. and utilized a geological model completed by Hans Smit, P.Geo and Fletcher Bourke, P.Geo. The effective date of this mineral resource estimate is November 13, 2013. No work has been performed on the property since then.

The identified indicated and inferred resource is significant, however engineering and economic studies have not been completed and thus no statement can be made about the project's potential economic viability. Recommended work at Gavilanes includes drilling in the area of current resources with the intent of upgrading resources to Indicated and Measured, drilling the open extent of the area with resources, testing other targets on the property and undertaking preliminary metallurgy, engineering and environmental studies.

Exploration and Acquisition Costs

During the six months ended June 30, 2015, mineral property acquisition costs and exploration costs were \$30,000 and \$78,350 respectively for the Gavilanes Property.

El Gachi Property, Sonora, Mexico

The El Gachi Property covers approximately 48,057 hectares and is located approximately 30 kilometres from the San Felipe Project. To date the Company has not completed any exploration work on the property.

Non-IFRS Measures

The Company has included certain non-IFRS performance measures throughout this MD&A, including cash cost per silver ounce, production cost per tonne, and average realized silver price per ounce, each as defined in this section. These performance measures are employed by the Company to measure its operating and financial performance internally, to assist in business decision-making, and provide key performance information to senior management. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors and other stakeholders also use these non-IFRS measures as information to evaluate the Company's operating and financial performance. As there are no standardized methods of calculating these non-IFRS measures, the Company's methods may differ from those used by others and, accordingly, the Company's use of these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Cash Cost per Silver Equivalent Ounce and Production Cost per Tonne

The non-IFRS measures of cash cost per silver equivalent ounce and cash cost of production per tonne are used by the Company to manage and evaluate operating performance at the Rosario Mine and are widely reported in the silver mining industry as benchmarks for performance, but do not have a standardized meaning. Cash costs are calculated based on the cash operating costs at the Rosario Mine and, in the case of cash cost per silver ounce, also include the third party concentrate treatment, smelting and refining cost.

Management of the Company believes that the Company's ability to control the cash cost per silver equivalent ounce produced and cash cost of production per tonne are two of its key performance drivers impacting both the Company's financial condition and results of operations. Having a low cash cost of production per tonne, when taken in connection with effective management of mining dilution, will improve the cost per silver equivalent ounce produced. Having a low cost base per silver equivalent ounce of production allows the Company to continue operating during times of declining commodity prices and provides more flexibility in responding to changing market conditions. In addition, low cost operations offer a better opportunity to generate positive cash-flows, which improves the Company's financial condition. The Company believes these measures provide investors and analysts with useful information about the Company's underlying cash costs of operations and are relevant metrics used to understand the Company's operating profitability and ability to generate cash-flow.

To facilitate a better understanding of these measures as calculated by the Company, the following table provides a detailed reconciliation between the cash cost of production per tonne, cash cost per silver equivalent ounce, and the Company's operating expenses as reported in the Company's Consolidated Statements of Loss and Comprehensive Loss contained in the respective financial statements for the referenced periods.

(Expressed in US Dollars except ounces, tonnes, per ounce and per tonne)	**Q2 2015**	**Q1* 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**
Cash cost of sales (as reported)	2,466,795	-	3,053,497	2,302,029	2,181,546
Capitalized Q1 2014 Ramp Expenditures (1)	-	-	-	-	486,514
Inventory change	(155,943)	-	(21,634)	(236,548)	249,724
NRV adjustment of inventory	-	-	183,262	401,368	74,919
Other	-	-	(291,000)	-	-
Cost of third party precipitate acquired and processed	-	-	-	(150,956)	(81,378)
Cash Cost of Production (A)	2,310,852	-	2,924,125	2,315,893	2,911,325
Cash cost of sales (as reported)	2,466,795	-	3,053,497	2,302,029	2,181,546
NRV adjustment of inventory	-	-	183,262	401,368	74,919
Other	-	-	(291,000)	-	-
2014 Q1 Capitalized Ramp Expenditures (1)	-	-	-	-	486,514
Concentrate treatment, smelting and refining cost	747,787	-	1,025,981	858,735	638,005
Cost of third party precipitate acquired and processed	-	-	-	(150,956)	(81,378)
Cash Cost of Silver Equivalent Sold (B)	3,214,582	-	3,971,740	3,411,176	3,299,606
Ore processed (tonnes milled) (C)	26,492	-	25,099	23,677	22,612
Cash Cost of Production per Tonne(2) (A/C)	87.23	-	116.50	97.81	128.75
Silver Equivalent Sold (payable ounces) (D)	247,135	-	263,300	188,100	148,800
Cash Cost per Silver Equivalent Ounce (B/D)	13.01	-	15.08	18.13	22.17

* During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such, the operating cost information and cost per unit calculations are not considered relevant and have not been included in this table.

(1) During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was $486,514 relating to the first quarter of 2014.

All-in Sustaining Cost per Ounce

AISC is a non-IFRS measure and was calculated based on guidance provided by the World Gold Council ("WGC") in June 2013. WGC is not a regulatory industry organization and does not have the authority to develop accounting standards for disclosure requirements. Other mining companies may calculate AISC differently as a result of differences in underlying accounting principles and policies applied, as well as differences in definitions of sustaining versus development capital expenditures.

AISC is a more comprehensive measure than cash cost per ounce for the Company's operating performance by providing greater visibility, comparability and representation of the total costs associated with producing silver from its Rosario Mine.

The Company defines sustaining capital expenditures as, "costs incurred to sustain and maintain existing assets at current productive capacity and constant planned levels of productive output without resulting in an increase in the life of assets, future earnings, or improvements in recovery or grade. Sustaining capital includes costs required to improve/enhance assets to minimum standards for reliability, environmental or safety requirements. Sustaining capital expenditures exclude all expenditures at the San Felipe Project and Gavilanes and El Gachi Properties, as well as certain expenditures at the Rosario Mine which are deemed expansionary in nature."

AISC includes total production cash costs incurred at the Company's mining operations, which forms the basis of the Company's total cash costs. Additionally, the Company includes sustaining capital expenditures, corporate general and administrative expense, share-based payments and reclamation cost accretion. The Company believes that this measure represents the total sustainable costs of producing silver from current operations, and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production from current operations, new project capital and expansionary capital at current operations are not included. Certain other cash expenditures, including tax payments, dividends and financing costs are also not included.

The following tables provide a detailed reconciliation of these measures to our operating expenses, as reported in our consolidated financial statements.

(Expressed in US Dollars except ounces and per ounce)	**Q2 2015**	**Q1 2015***	**Q4 2014**	**Q3 2014**	**Q2 2014**
Cash cost of sales (as reported)	2,466,795	-	3,053,497	2,302,029	2,181,546
NRV adjustment of inventory	-	-	183,262	401,368	74,919
Other	-	-	(291,000)	-	-
Concentrate treatment, smelting and refining cost	747,787	-	1,025,981	858,735	638,005
Cost of third party precipitate acquired and processed	-	-	-	(150,956)	(81,378)
Sustaining capital expenditures	103,626	-	107,107	201,183	235,785
Deferred ramp expenditures	296,391	-	770,904	169,000	735,096
General and administrative expenses	541,368	-	584,298	662,197	625,178
Accretion of decommissioning and restoration provision	11,610	-	9,833	10,402	10,487
All-in Sustaining Cost	4,167,577	-	5,443,882	4,453,958	4,419,638
Silver Equivalent Sold (payable ounces)	247,135	-	263,300	188,100	148,800
All-in Sustaining Cost per Silver Equivalent Ounce Sold	16.86	-	20.68	23.68	29.70

* During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the operating cost information and All-in Sustaining cost per unit calculations are not considered relevant and have not been included in this table.

Average Realized Silver Price per Ounce

Revenues are presented as the sum of invoiced revenues related to delivered shipments of lead and zinc concentrates, after having deducted treatment, smelting and refining charges.

The following is an analysis of the gross revenues prior to treatment, smelting and refining charges, and shows deducted treatment, smelting and refining charges to arrive at the net reportable revenue for the period per IFRS. Gross revenues are divided by silver equivalent ounces sold to calculate the average realized price per ounce of silver equivalents sold.

(Expressed in US Dollars except ounces, tonnes, per equivalent ounce and per tonne)	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**
Revenues (as reported)	3,147,077	402,040	3,225,927	3,167,067	2,302,056
Add back: MPPP impact	306,439	-	-	-	-
Add back: Treatment, smelting and refining charges	747,787	136,484	1,025,981	858,735	638,005
Deduct: Precipitate revenues	-	-	-	(349,814)	-
Gross Revenues	4,201,303	538,524	4,251,908	3,675,988	2,940,061
Silver Equivalent Sold (ounces)	247,135	30,931	263,300	188,100	148,800
Avg Realized Price per Ounce of Silver Equivalent Sold[(1)]	17.00	17.41	16.15	19.55	19.76
Avg Market Price per Ounce of Silver per London Silver Fix	16.41	16.74	16.47	19.74	19.62

(1) Average realized price per ounce of silver sold in each reporting period is affected by mark-to-market adjustments and final settlements on concentrate shipments in prior periods. Concentrates sold to third-party smelters are provisionally priced and the price is not settled until a predetermined future date, typically one to four months after delivery to the customer, based on the market price at that time. When the average realized price of silver is below the MPPP price for the respective period, the amount earned on the MPPP is taken into account for the purposes of this calculation. For the first and second quarter of 2015 the MPPP price for silver was $17.00/oz.

Non-IFRS Measures – Additional Information

The Company uses additional non-IFRS measures which include Mine Operations Income (Loss) and EBITDA. These additional financial disclosure measures are intended to provide additional information.

Mine Operations Income (Loss)

Mine operations income (loss) represents the difference between revenues and mine operating expenses, less depletion, depreciation and amortization expenses. Management believes that mine operations income (loss) provides useful information to investors for evaluating the Company's mining performance.

EBITDA and Adjusted EBITDA

EBITDA is a non-IFRS measure that provides an indication of whether the Company's operations are generating sufficient operating cash flow to fund working capital needs and to fund capital expenditures. EBITDA comprises revenue less operating expenses before interest expense, interest income, amortization and depletion, impairment charges, and income taxes.

Adjusted EBITDA is a non-IFRS measure in which standard EBITDA (earnings before interest expense, interest income, taxes, amortization and depletion, and impairment charges) is adjusted for share-based payments expense, foreign exchange gains or losses, and non-recurring items. Foreign exchange gains or losses may consist of both realized and unrealized losses. Under IFRS, entities must reflect in compensation expense the cost of share-based payments. In the Company's circumstances, share-based payments can involve a significant accrual of amounts that will not be settled in cash but are settled by the issuance of shares in exchange. The Company discloses adjusted EBITDA to aid in understanding of the results of the Company and is meant to provide further information about the Company's financial results to investors.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA to the 2014 Q2, Q3, Q4 and 2015 Q1, Q2 Financial Statements:

(Expressed in US 000's Dollars)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net loss for the period as reported	(2,018)	(2,551)	(4,498)	(1,054)	(1,092)
Add (Deduct) Capitalized Q1 2014 Ramp Expenditures (1)	-	-	-	-	(487)
Income tax expense (recovery)	379	(197)	858	24	30
Interest earned and other finance income	(6)	(3)	(792)	(51)	(54)
Interest expense and loss on settlement of silver loan	764	1,436	3,280	-	-
Accretion expense	12	12	10	10	11
Amortization and depletion of mineral properties, plant and equipment	554	54	282	440	456
EBITDA	(315)	(1,249)	(860)	(631)	(1,136)
Foreign exchange	427	(357)	380	190	(71)
Share-based payments	27	26	(115)	243	141
Adjusted EBITDA	139	(1,580)	(595)	(198)	(1,066)

(2) During the second quarter of 2014 the Company took the decision to capitalize the expenditures incurred subsequent to December 31, 2013 to develop the Ramp. Accordingly, $735,096 was capitalized to Plant and Equipment during the second quarter. Included in this amount was $486,514 relating to the first quarter of 2014.

Financing Activities

Equity Offerings

There were no equity financing activities during the six months ended June 30, 2015.

The Company completed one equity offering in the year ended December 31, 2014 as follows:

- On March 11, 2014, the Company closed a prospectus offering, pursuant to which 12,062,500 common shares were issued at a price of CDN$1.00 per share for gross proceeds of $10,864,694 (CDN$12,062,500). The underwriters received a cash fee of $651,882 (CDN$723,750), as well as 723,750 warrants, each of which is exercisable to purchase one common share for a price of CDN$1.00 until March 11, 2016 for 645,000 warrants and March 20, 2016 for 78,750 warrants. The Company also issued 100,000 common shares as corporate finance fee and incurred additional issue costs of $318,653.

Pre-paid Silver Purchase

On October 2, 2014, the Company closed the JMET Agreement for gross proceeds of $28.4 million pursuant to which the Company agreed to sell to JMET 4,635,000 ounces of silver through August 2019, subject to certain adjustments relating to metal prices.

On November 27, 2014 the parties amended the JMET Agreement such that the Company repaid JMET $9.0 million upon execution of the amended agreement and agreed to repay $7.0 million on or before April 1, 2015. In addition, the amount of silver to be sold to JMET reduced from 4,635,000 ounces to 2,600,000 ounces at an agreed upon discount to the spot price. The first delivery of silver to JMET is 52,000 ounces in July 2015, and sales of an additional 52,000 ounces shall occur each month through August 2019, at which point the contract will be fulfilled

On April 1, 2015 the Company repaid $2.0 million of the $7.0 million due and further amended the JMET Agreement to extend the repayment of the remaining $5.0 million until December 31, 2015.

On July 15, 2015 the parties amended the JMET Agreement again such that the 52,000 ounces of silver to be delivered by the Company to JMET for each of July, August and September 2015 will now be due for delivery in October 2016, in addition to the 52,000 otherwise deliverable pursuant to the JMET Agreement. In addition, as consideration for JMET agreeing to such deferred deliveries of silver, the

Company has agreed to make a one-time delivery of 44,625 ounces of silver to JMET in October 2016.

In connection with the JMET Agreement, as amended, the Company entered into a minimum price protection program ("MPPP") for its metal production in 2015 and Q1 2016, and in the case of silver has additionally set a floor price for its silver production for the last three quarters of 2016. Details of the MPPP are as follows:

		Deliverable Amount Per Period		
Metal	**Floor Price**	**2015**	**Q1 2016**	**Q2, Q3 & Q4 2016**
Ag	$17.00/oz.	1,183,680 ozs.	315,714 ozs.	
	$16.00/oz.			947,142 ozs.
Au	$1,145/oz.	2,160 ozs.	570 ozs.	-
Pb	$1,975/tonne	1,860 tonnes	495 tonnes	-
Zn	$2,200/tonne	3,900 tonnes	1,038 tonnes	-

The MPPP does not limit the maximum price at which Santacruz may sell its production, which will allow it to benefit from any increase in metal prices. The cost to establish the initial MPPP was $6.3 million.

Use of Proceeds from Previous Financings

During the year ended December 31, 2014, the Company used the net proceeds of CDN$11,338,750 from the March 2014 financing (which included net proceeds from the exercise of the over-allotment option) as follows:

Use of Proceeds as stated in the short form prospectus from the 2014 Financing	Original Estimated Expenditure (Cdn$)	Approximate Actual Expenditure (Cdn$)
San Felipe Project		
Property payments	-	$1,067,000
Drilling and related infrastructure	$500,000	$500,000
Development of access ramps and preliminary tailings impoundment study	$2,250,000	$2,400,000
Pre-feasibility study	$400,000	-
Subtotal:	**$3,150,000**	**$3,967,000**
Gavilanes Property		
Property payments	-	$1,600,000
Mapping, drilling, sample analysis, metallurgy and related infrastructure	$3,000,000	165,000
Subtotal:	**$3,000,000**	**$1,765,000**
Rosario Property		
Development of access ramps and plant expansion(1)	-	$1,200,000
Subtotal:	**-**	**$1,200,000**
General		
Estimated offering costs	$350,000	$350,000
Administration expenses, including corporate and financial reporting, legal and compliance, accounting costs, general corporate communication and corporate development, and general working capital(2)	$4,838,750	$4,056,750
Subtotal:	**$5,188,750**	**$4,406,750**
Total	**$11,338,750**	**$11,338,750**

(1) The actual expenditures are greater than the original estimates, due to the fact that the operations from the Rosario Mine did not generate positive cashflow in Q1 and Q2 2014 as initially anticipated. Therefore, the Company had to

reallocate its resources and decided to concentrate on increasing the production at Rosario instead.

(2) Net proceeds from the exercise of the over-allotment option were added to general working capital, as disclosed in the short form prospectus from the 2014 financing.

Capital Expenditures

The Company spent $761,114 on its mineral properties during the six months ended June 30, 2015 (2014 - $5,650,613). The Company also spent $1,165,607 on acquisitions of plant and equipment at the Rosario Mine during the six months ended June 30, 2015 (2014 - $1,855,226) including deferred ramp expenditures of approximately $296,391 (2014 - $735,096) and approximately $432,444 incurred in connection with upgrading the safety factor at the tailings embankment. The Company has made no dividend payments, and currently has no plans to declare any dividends.

Liquidity and Capital Resources

As at June 30, 2015, the Company had cash and cash equivalents of $241,779 (December 31, 2014 – $6,015,947) and a working capital deficiency of $7,215,921 (December 31, 2014 – $683,059). During the six months ended June 30, 2015, net cash used in operating activities was $2,063,242 (2014 – $2,223,702), net cash used in investing activities was $1,926,721 (2014 - $7,505,839) primarily for acquisitions of mineral property interests, plant and equipment, and costs relating to the exploration activities on its mineral properties; and net cash used by financing activities including cash received from the settlement of derivative assets and the repayment of the Silver Loan was $1,776,132 (2014 - cash provided of $9,894,159).

Pursuant to the terms of the underlying mineral property agreements to the Rosario Mine (Note 7 to the 2015 Q2 Financial Statements), in order to maintain and exercise the option the Company must make aggregate cash payments of $40,000 on or before February 22, 2016.

Pursuant to the terms of the Gavilanes property agreement (Note 8(a) to the 2015 Q2 Financial Statements), in order to maintain and exercise the option the Company must make the remaining payment of $820,000. The Company is currently re-negotiating an extension of this remaining payment.

Pursuant to the terms of the San Felipe Agreement (Note 8(b) to the 2015 Q2 Financial Statements), in order to maintain and exercise the option, the Company must make further aggregate cash payments of $19,000,000 on or before December 15, 2016.

At June 30, 2015, the Company had not yet achieved profitable operations, had a working capital deficiency of $7,215,921, had accumulated an inception to date deficit of $38,603,236, and may incur further losses in the development of its business. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent upon its ability to raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has capital management process in place to safeguard the Company's ability to continue as a going concern. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Transactions with Related Parties

The Company’s related parties consist of the Company’s directors, officers and companies associated with them including the following:

- Malaspina Consultants Inc., a company owned by Robert McMorran, the Chief Financial Officer
- Pref-Ex Geological Inc., a company owned by Marc Prefontaine, a director of the Company.

During the three and six months ended June 30, 2015 and 2014, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	Three months ended	June 30,	Six months ended	June 30,
	2015	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**
Accounting and corporate secretarial fees (1)	80,584	66,147	140,144	98,739
Directors' fees (2)	12,060	26,804	16,292	48,958
Management fees (2)	55,000	148,490	109,000	251,550
Share-based payments	26,729	138,495	52,942	138,495
Salaries and benefits capitalized in mine under construction and development costs (3)	74,720	92,462	132,805	94,580

(1) The charge includes accounting and corporate secretarial fees paid to Malaspina Consultants Inc.

(2) The charge includes geological consulting fees paid to Pref-Ex Geological Inc. and directors' fees paid to Marc Prefontaine, James Hutton, Craig Angus and Larry Okada.

(3) The charge includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer, and salaries and benefits paid to Robert Byrd, the Chief Operating Officer, and Francisco Ramos, the former Chief Operating Officer.

At June 30, 2015, directors and officers or their related companies were owed $58,303 (December 31, 2014 – $114,994) in respect of the services rendered and are non-interest bearing with standard payment terms.

Key management includes directors and executive officers of the Company. Other than the amounts disclosed above, there was no other compensation paid or payable to key management for employee services for the reported periods.

Financial Instruments

Fair Value and Classification of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, other receivables, derivate assets, holdback receivable, accounts payable and accrued liabilities, and silver loan. Cash and cash equivalents, trade receivables, other receivables and holdback receivable are designated as loans and receivables, which are measured at amortized cost. The derivative assets are designated as at fair value through profit or loss and are measured at fair value. Accounts payable and accrued liabilities and silver loan are designated as other financial liabilities, which are measured at amortized cost. The carrying values of cash and cash equivalents, trade receivables, other receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

Off-balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Recent Accounting Pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards in the consolidated financial statements.

The IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods commencing on or after January 1, 2017. The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

IFRS 9 as issued, reflects the first phase of the IASB's work on the replacement of IAS 39, *Financial Instruments: Recognition and Measurement* and applies the classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but the complete version of IFRS 9, issued July 2014, moved the mandatory effective date to January 1, 2018. The Company is currently evaluating the impact, if any, that the new guidance is expected to have on its consolidated financial statements.

Outstanding Share Data
Authorized share capital: Unlimited number of Common Shares

All share information is reported as of August 26, 2015 in the following table.

Issued and Outstanding Common Shares				103,493,484
	Expiry Date	Exercise Price (CDN$)		
Options	April 12, 2017	0.90	2,206,666	
	July 24, 2017	0.90	800,000	
	February 28, 2018	1.85	400,000	
	July 29, 2018	1.22	300,000	
	April 8, 2019	1.00	400,000	
	August 12, 2019	0.94	600,000	4,706,666
Warrants	March 11, 2016	1.00	645,000	
	March 20, 2016	1.00	78,750	723,750
Fully Diluted				108,923,900

Disclosure Controls and Procedures and Internal Control over Financial Reporting
Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the six months ended June 30, 2015 and this accompanying MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Annual Filings on SEDAR at www.sedar.com.

Risks and Uncertainties

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

Operational risks include: the Company may not be able to find and develop resources economically, the Company cannot guarantee title to its properties, the Company may have difficulty in marketing production and services, the Company must manage changing governmental laws and regulations, the Company may have difficulty in hiring and retaining skilled employees and contractors, environmental hazards (including discharge of pollutants or hazardous chemicals), industrial accidents and occupational and health hazards, mechanical failures, the unavailability of materials and equipment, pit slope failures, unusual or unexpected rock formations, poor or unexpected geological or metallurgical conditions, poor or inadequate ventilation, failure of mine communication systems, poor water condition, interruptions to gas and electricity supplies, human error and adverse weather conditions, there is no assurance that the Company will acquire additional mineral properties and any acquisitions may expose the Company to new risks, and the mining industry is intensely competitive for the acquisition of new properties, access to capital and hiring of skilled personnel. The Company continuously monitors and responds to changes in these factors and seeks to adhere to all regulations governing its operations.

Financial risks include commodity prices, interest rates and fluctuating foreign exchange rates, all of which are beyond the Company's control. Additional financial risks are the Company's ability to raise capital to continue funding its operations.

Regulatory risks include the possible delays in getting regulatory approval to, and permits for, the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

Outlook

During the fourth quarter of 2014 the Rosario Mine continued to steadily ramp up production and recorded a nominal negative cash flow from operations ($11,000) notwithstanding a significant decrease in the price of silver, gold, zinc and lead during this period. This positive event was overshadowed in early January with a malfunction in the Rosario Mine tailings storage facility that caused a suspension in operations at the mine from January 2nd to March 26th. With the recommencement of operations in late March the Company is once again focused for the near term on the continued increase of production at the Rosario Mine. The current plan is to increase production from an initial level of 350 tpd to 450 tpd in a systematic manner over the coming weeks.

Once the production level is stabilized at 450 tpd the Company expects to follow through on other operations optimization initiatives that have been deferred while operations staff were focused on bringing the Rosario Mine back into production.

Additional Disclosure for Venture Issuers without Significant Revenue

The Company provides disclosure related to capitalized or expensed exploration and development costs in the notes to the financial statements and disclosure related to general and administration expenses in the statements of loss and comprehensive loss. The Company has no expensed research and development costs.

Qualified Persons

Technical information regarding the San Felipe and Gavilanes properties which is included in this MD&A has been reviewed and approved by Hans Smit, P.Geo of Hans Smit, P. Geo. Inc. or Gary Giroux , P.Eng. of Giroux Consultants Ltd.

Technical information regarding the Rosario Mine which is included in this MD&A has been reviewed and approved by Donald E. Hulse P.E. of Gustavson and is consistent with work published by Gustavson.

Other Information

Additional information related to the Company is available on SEDAR at www.sedar.com and on the Company’s website, www.santacruzsilver.com.